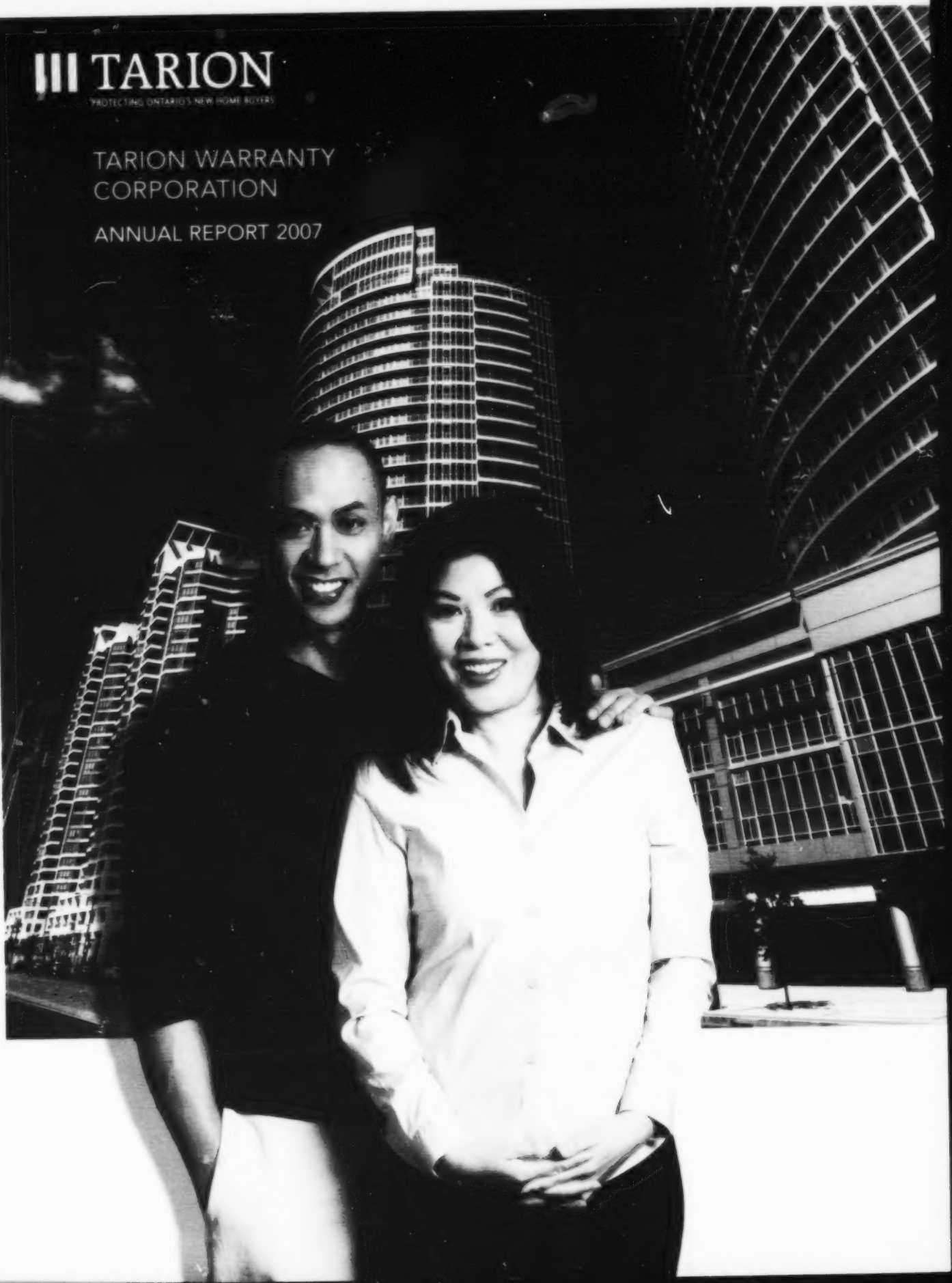
TARION

PROTECTING ONTARIO'S NEW HOME BUYERS

TARION WARRANTY CORPORATION

ANNUAL REPORT 2007



2007 STRATEGIC INITIATIVES

The strategic initiatives listed below were undertaken in 2007 to assist Tarion in fulfilling its strategic mandate.

NEW CONSUMER SURVEY

A survey was developed with Harris/Decima Research and sent to over 53,000 new homeowners, which represents 92 per cent of consumers who took possession of a new home in 2006. The results were used to assess homeowner satisfaction with customer service provided by Tarion, and to determine the winners of the 2007 Tarion Awards of Excellence. Almost 11,000 responses were received.

END-TO-END CALL TRACKING

New automation was implemented to allow digital recording of telephone calls to the Tarion Contact Centre, and to enable call auditing. This new software is helping management to better understand consumer requests for information, and helps to identify areas where staff could improve their responses.

NEW DELAYED CLOSING / OCCUPANCY POLICIES

Recommendations for new delayed closing and occupancy policies were approved by the Tarion Board of Directors and a final report was provided to the Minister of Government and Consumer Services. A detailed plan was developed for implementing the policies with an effective date of July 1, 2008.

BUILDER PORTAL

New features were added to the Tarion Builder Portal to help builders optimize their customer service and streamline their business practices. These features included giving builders the ability to enrol new homes with Tarion online, and providing them with access to administrative data regarding the most common forms they submit to Tarion.

BUILDER LICENSING

A new program to assist in the identification of illegal builders was developed and approved by the Tarion Board of Directors for rollout in 2008. It will require builders to post notices indicating that they are licensed to build new homes in Ontario, and that the homes and/or condominium units they are building have been enrolled with Tarion.

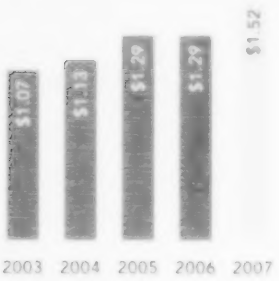
PEOPLESOFT DEVELOPMENT

New information systems functionality was created to support the Finance and Claims Departments in recording reserves and claim payments as well as collections. In addition, a new feature was developed that will allow categorization of reported defects on freehold homes and condominium units as well as common elements.

2007 KEY OPERATIONAL HIGHLIGHTS

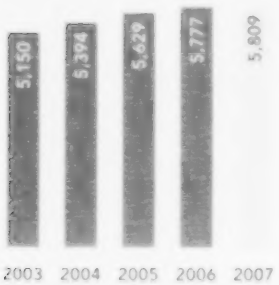
TOTAL ASSETS
($ millions)

BUILDER SECURITY HELD
($ billions)



RECOVERIES FROM BUILDERS
($ millions)

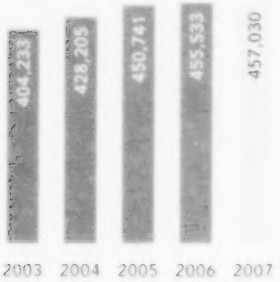
BUILDERS REGISTERED



NEW HOME ENROLMENTS

WARRANTY CLAIM LIABILITIES
($ millions)

NEW HOMES UNDER WARRANTY



HOMES WITH CONCILIATION INSPECTION

CLAIMS PAID
($ millions)

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CORPORATE MANDATE

Tarion Warranty Corporation ("Tarion") is a private corporation established in 1976 to provide protection for all consumers who purchase a new home or condominium residence in Ontario.

NEW HOME BUYERS Tarion helps new home buyers in Ontario understand their rights and responsibilities under the statutory warranty and acts as a mediator in cases where disputes between new home buyers and builders arise over warrantable items.

HOME BUILDERS In addition to licensing all new home and condominium builders in Ontario, Tarion ensures that builders comply with the provisions of the statutory warranty.

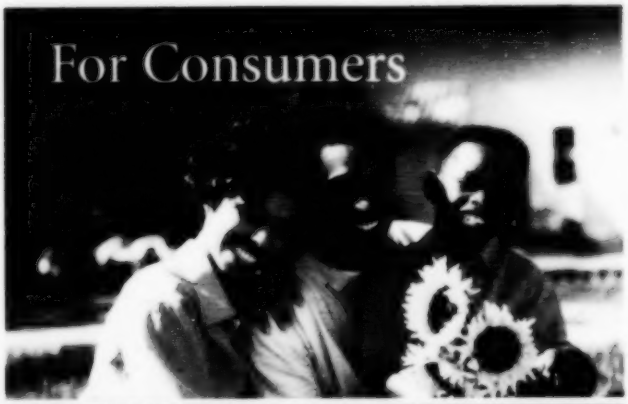
Tarion administers the *Ontario New Home Warranties Plan Act* ("the Act"), which requires builders to offer a warranty to each purchaser of a new housing unit in Ontario. The Corporation manages a guarantee fund to ensure that the warranty offered to consumers will be honoured if the builder refuses to do so, or in the event of builder insolvency. Another responsibility is the establishment of minimum time standards for after-sales service and adjudication of issues between homeowners and builders. Currently, there are more than 457,000 homes in Ontario eligible for warranty protection under the Act.

In addition to standing behind the builder's statutory warranty, Tarion acts as the Regulator of the home building industry in Ontario, responsible for the licensing of all new home and condominium builders in the province. Builder licensing occurs annually and it involves the establishment of individual terms and conditions of registration in accordance with the Act. By the close of 2007, the number of registered builders in Ontario was more than 5,800. Tarion is also responsible for enforcement of builders' compliance with the Act. Beyond this regulatory role, the business of the Corporation is similar to a property and casualty insurance company: it takes in fee revenue, establishes reserves and pays out claims.

Tarion's mandate is unique in Canada. No other province or territory so completely transfers responsibility and liability for management of the home building industry to an independent organization. In fulfilling this mandate, the Corporation strives to establish policies and business practices that balance the interests of its stakeholders: consumers, home builders and the Government of Ontario.

STRATEGIC IMPROVEMENTS TO BETTER SERVE OUR CUSTOMERS (2003–2007)

Throughout the past five years, Tarion management has focused on implementing a number of important strategic improvements, which are highlighted below.



TOTAL WARRANTY COVERAGE
Increased to $300,000, the highest aggregate new home warranty coverage available in Canada.

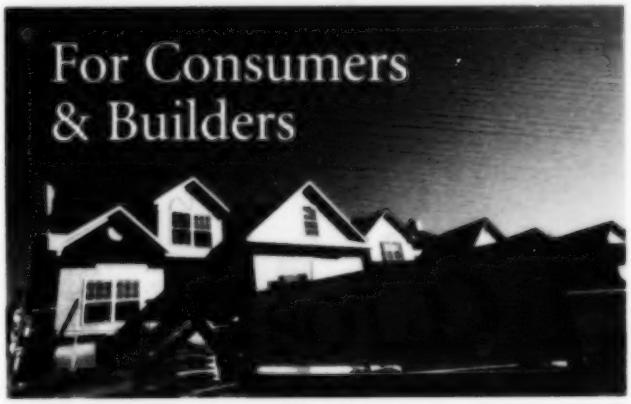
MANDATORY REPAIR TIMELINES
All after-sales service work must now be completed within specified time periods, failing which Tarion will resolve the issue directly with the homeowner.

DELAYED CLOSING WARRANTY
Developed a comprehensive warranty against delayed closing and delayed occupancy, which is not available elsewhere in Canada.

HOMEOWNER INFORMATION PACKAGE
A warranty handbook from Tarion, which includes claims forms, is now required to be provided to all new home and condominium buyers in Ontario.

CONSUMER SEMINARS
Tarion provided free seminars in Toronto, Ottawa and London, with more than 1,500 consumers attending annually.

MANDATORY PRE-DELIVERY INSPECTION
All builders are required to conduct a pre-delivery inspection of the home with the buyer prior to closing.



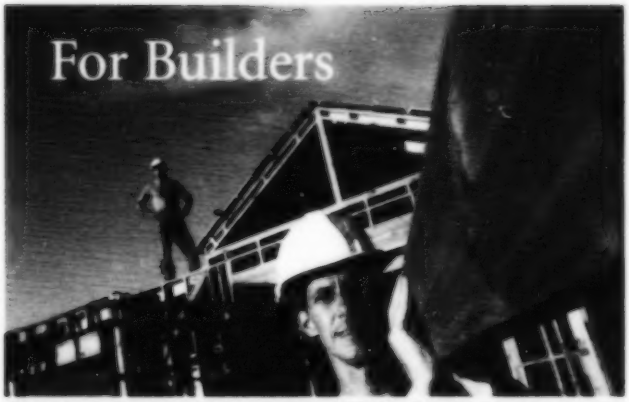
CUSTOMER CENTRE
Developed a Customer Centre in a retail setting in Toronto that was used by more than 9,000 consumers and builders in 2007.

CALL CENTRE
A state-of-the-art Call Centre receives nearly 1,000 calls per day from consumers and builders.

CONSTRUCTION PERFORMANCE GUIDELINES
Guidelines were developed to provide clarity and certainty for builders and consumers regarding warranty coverage issues in the home.

LICENSING OF BUILDERS
All builders in Ontario are required to post licensing information at each building site to assist in identifying unlicensed builders (Effective 2008).

WEB SITE
A modern web site with interactive tools is used as our principal communication vehicle with the public, and the site receives more than 200,000 visits annually.



BUILDER RELATIONS DEPARTMENT

A dedicated group of staff with experience in the building industry was established to meet regularly with home builders to assist and promote best practices.

BUILDER FILE REVIEW CLINICS

Educational workshops for builders are held across Ontario each year to provide information and assistance with solving homeowner issues.

BUILDER ARBITRATION FORUM

An arbitration forum was established in 2003 to permit builders to have a Tarion ruling reviewed by an independent arbitrator.

BUILDER PORTAL

An Internet portal was developed to allow builders to have immediate access to their homeowner files on a 24/7 basis. This facility is being progressively expanded allowing e-business by Tarion with home builders.

TARION AWARDS OF EXCELLENCE

A new program was developed to recognize the top builders in Ontario in terms of customer service, and features a Gala Awards Dinner each year that attracts more than 400 builders from across the province.

CENTRALIZED OPERATIONS GROUP

All customer and enforcement activities across Ontario were reorganized, and are now managed from a centralized operations facility in Toronto using the latest technology.

MODERN OFFICES

All Tarion offices across Ontario are either new or completely renovated in the past three years.

AUTOMATED BUSINESS SYSTEMS

Most business processes at Tarion now use extensive automated business systems that are supported by the latest computer hardware and software.

NEW CORPORATE NAME

The Tarion brand and logo were introduced in 2004 as part of an extensive modernization process.

FINANCIAL STRENGTH

By 2007, the Corporation had a strong balance sheet with nearly $140 million in total equity, and with no increases in home enrolment or builder registration fees since 1999.

FROM THE CHAIRMAN OF THE BOARD

As I write this my fourth and final message as Chairman of the Board of Tarion Warranty Corporation, I am honoured to have been involved with this outstanding organization for over a decade. I have witnessed many changes at Tarion during my 12 years on the Board of Directors and have particularly enjoyed working with retiring President and CEO, Greg Gee, who helped guide the Corporation toward many significant achievements.

ROBERT E. WADE
Chairman of the Board

During this period Management and the Board brought new found efficiencies, cost-savings and process automation to the entire organization, and helped create a more responsive, customer-focused Tarion that is capable of adapting to and keeping up with the changes in Ontario's new home marketplace. As a result, the Tarion of today is also better equipped to fulfill the Corporation's statutory mandate.

I would also like to acknowledge the hard work and dedication of Tarion's employees, who showed a great willingness to change and played a major role in helping move the Corporation in its new direction. Also deserving of recognition are the many fine members of the Board of Directors who I have had the pleasure of working with, and who have shown a tireless commitment to keeping Tarion at the forefront of new home warranty protection in Canada.

This last year saw the departure of five valued Board members: Tony Campanale, President, Campanale Homes; former mayor of Nepean, Mary Pitt; Robert Dowler, Assistant Deputy Minister, Policy and Consumer Protection Services Division, Ontario Ministry of Government and Consumer Services; Karen Kinsley, President & CEO, Canada Mortgage and Housing Corporation; and Victor Fiume, General Manager, The Durham Group, Oshawa. We welcomed the following new Board members: Deborah Brown, Director, Sector Liaison Branch, Ontario Ministry of Government and Consumer Services; former Toronto Star consumer affairs reporter, Harold Levy; Bob Ridley, Vice President, Minto Suburban Communities; Associate Member Peter Oakes, former Chief Financial Officer with Ontario Realty Corporation; and Mark Basciano, President, Mountainview Homes, who is serving as an Observer for the Ontario Home Builders' Association.

As I step down from my role as Chairman, I wish the Corporation's Management Team and Board of Directors the very best as they continue working together to help Tarion become an ever more dynamic part of Ontario's new home industry.

FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Residential construction in Ontario rebounded in 2007, posting home enrolments of 66,958 units, a solid 7.3% increase over the prior year. The condominium sector continued to grow, accounting for 34% of new home enrolments in the province, a 17.6% increase over condominium units enrolled in 2006.

GREGORY W. GEE
President and Chief Executive Officer

The strong housing market together with sound financial practices contributed to the robust financial position of the organization which now has accumulated Equity of $137.9 million, a 31.8% increase over 2006.

One of the key measures of success for Tarion is the opinions of stakeholders regarding our services, and the way we provide those services. Three important independent surveys were conducted on behalf of Tarion during 2007. Harris/Decima Research surveyed more than 53,000 new home buyers in Ontario who gave Tarion an overall customer service satisfaction rating of 87%. Redfern Research conducted a survey of Ontario home builders who gave Tarion an overall performance rating of 89%. A survey of Tarion employees conducted by Hay Group provided ratings that were 11% higher than a group of 500 North American companies who had participated in a similar survey, and 5% higher than the results of a similar survey conducted at Tarion in 2005.

The collective results of these three surveys indicate that both of our customer groups – consumers and builders – are very satisfied with the customer service provided at Tarion, and that our employees are working effectively together as a team that is focused on service excellence. Everyone associated with the Tarion organization, from our Board of Directors to each of our employees, can be very proud of their contribution in helping to achieve these outstanding results.

Early in 2008, I announced plans to retire as President & CEO of Tarion, effective as of the Tarion Annual Meeting on March 27, 2008. I joined Tarion at the beginning of 2002 with a mandate from the Board to modernize and update the organization into a customer-focused business. The Tarion that we know today has evolved to become a modern organization that uses the latest in technology to provide a host of new service offerings for our customers. It has been a great pleasure to work with our management team and staff members. Their diligence, dedication and enthusiasm has been the driving force that has enabled the transformation of the organization.

As I leave, I want to thank the entire Tarion organization, and in particular Chairman Bob Wade who is also retiring, for their support over the past number of years. It is my hope that Tarion will have continued success in the future as it seeks to provide the very best in customer service to the buyers and builders of new homes in Ontario.

CORPORATE LEADERSHIP TEAM

GREGORY W. GEE
President and Chief Executive Officer

ROBIN E. FITZGERALD
Senior Vice President, Operations

JOHN E. BECEVELLO
Vice President and Chief Financial Officer

MIKE E. COTÉ
Vice President, Builder Relations

EILEEN M. HOLDEN
Vice President, Human Resources

ROBERT S. JEWETT
Vice President, Claims

JANICE MANDEL
Vice President, Corporate Affairs

ROBERT P. MITCHELL
Director, Industry and Government Relations

TIM P. SCHUMACHER
Vice President and General Counsel

SUZANNE M. TIFFIN
Vice President, Customer Service

A. PAT VARCOE
Vice President, Licensing and Underwriting

BILL R. WALLACE
Vice President, Information Systems

RELATIONS WITH OUR STAKEHOLDERS

The success of these reforms is reflected in the following operational review and shows that Tarion has evolved to become a modern corporation with a particular focus on customer service – one that is responsive to the needs of new home buyers and builders.

The following pages review the year's operational highlights against a background of key findings from three research studies independently conducted on behalf of Tarion by three respected research firms. This research was undertaken to help us understand how we are viewed by our customers and our employees, and to help us assess where we excel, or where improvement is needed. The results show that Tarion is achieving high marks from each of these important groups, thus confirming our overall business improvements.

"As long as Tarion keeps following through on customer service, homeowners can feel confident that their issues will be resolved."

*New homeowner**

** Quote based on actual response to 2007 Harris/Decima consumer survey.*

WINNING THE APPROVAL OF NEW HOME BUYERS

During the past year, almost 67,000 new homes were enrolled with Tarion bringing total homes currently under warranty to 457,030.

To help measure Tarion's ongoing customer service performance, this past year we commissioned Harris/Decima Research to conduct a large-scale quantitative survey of more than 53,000 consumers in Ontario, virtually every owner who took possession of a new home in 2006. Almost 11,000 individuals responded, providing a timely and accurate snapshot of how new homeowners view Tarion and its services. The survey looked at homeowners' overall impressions of Tarion, their satisfaction with transactional experiences such as enquiries by telephone, email and regular mail, available sources of information about the warranty, and the conducting of warranty inspections.

The responses gathered were both positive and encouraging with key findings showing that 85 per cent of new homeowners had a favourable impression of Tarion. A large majority of participants – over two-thirds – had some contact with us, either by telephone, email, mail, through submission of a warranty service form or because they had an inspection in their home. The vast majority gave us high marks for customer service citing timely response and follow-up, as well as courteous and knowledgeable staff. Overall satisfaction levels were largely in keeping with the upper end of comparable organizations in the financial services and insurance industries.

Key Findings of Harris/Decima 2007 Consumer Survey*	Positive Responses
Overall impression of Tarion	85%
Satisfaction of home buyers with their interaction with Tarion staff	87%
Accessible to new homeowners	89%
Helps new homeowners understand their warranty rights and obligations	85%
Listens to needs and concerns of new homeowners	81%
Easy to do business with	80%
Ensures new home builders fulfill warranty obligations	77%

* Conducted among consumers who took possession of a new home in 2006. Over 53,000 homeowners were surveyed and 10,791 responses received.

UNSURPASSED WARRANTY PROTECTION

Many factors have led to the positive feedback received from homeowners, beginning with the confidence they have knowing that their new home purchase is protected by one of the most comprehensive warranty programs in Canada. At $300,000 per home, Tarion offers the highest aggregate warranty coverage in the country and is also the only warranty program that provides protection against the unauthorized substitution of cheaper or lower quality materials in a new home. In addition, Ontario is the only province that requires builders to conduct a pre-delivery inspection, distribute a standard *Homeowner Information Package* and follow prescribed timelines for making repairs. Tarion also protects consumers even when they buy a new home from an unlicensed builder.

Tarion works hard to ensure new home warranty coverage remains in step with changing marketplace realities. During 2007, much headway was made on revamping the delayed closing warranty, a process which began in 2006 with the creation of a Special Committee representing consumers, land developers and home builders, under the leadership of former Supreme Court Justice Frank Iacobucci. A report summarizing the Committee's recommendations was approved by the Tarion Board of Directors in February 2007. Included are precedent-setting standards for disclosure in Agreements of Purchase & Sale, prescribed timelines for notifying purchasers of potential delays and a 50 per cent increase in financial compensation when delays do occur.

Tarion offers the highest aggregate warranty coverage in Canada.

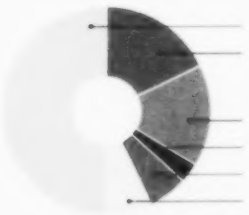
ENSURING PUBLIC AWARENESS

Tarion has undertaken a number of initiatives to help consumers navigate their way through the new home buying process and better understand the various components of Ontario's statutory warranty for new homes.

The cornerstone of these is the Corporation's consumer advertising program which has steadily built public awareness and understanding about Tarion and its mandate since the launch of the new corporate brand in 2004. According to a recently conducted awareness survey, 15 per cent of Ontarians are aware of Tarion and almost 80 per cent of those individuals recall seeing our advertising or communication during the last year. Given that new home buyers make up less than five per cent of the general population, these results are encouraging and comparable to other organizations with similar mandates and resources.

Our advertising encourages new home buyers to visit *www.tarion.com* for more information about new home builders and statutory warranty coverage. Over 200,000 visitors accessed the site in 2007, with the most popular area continuing to be "Find a Builder" where we provide information about each builder's track record for customer service after closing.

TYPES OF HOMEOWNER CALLS TO TARION'S CONTACT CENTRE



51% Complaint Process
18% Technical Warranty Questions
16% Warranty Coverage Questions
3% General Contact Information
6% Claims Status
7% All Other Information Requests

Newspaper advertising helps raise public awareness about Tarion and the statutory warranty protection offered to new home buyers in Ontario. Ads direct consumers to Tarion's website where a wealth of information about warranty coverage is easily accessible.

Another popular service is our New Home Buyer Seminars which are offered at Tarion's Customer Centres in Toronto, Ottawa and London, in both English and Mandarin. During 2007, more than 1,500 consumers attended one of two seminars offered: "Buying a New Home" which takes purchasers through the new home buying process and provides an overview of the statutory warranty, and "Understanding Warranty Coverage" which provides an overview of warranty coverage and processes.

DELIVERING ACCESSIBILITY

In 2004, Tarion launched a retail Customer Centre in Toronto that was used by more than 9,000 customers in 2007. Consumers and builders are free to drop in and meet with Tarion representatives regarding a question or issue. They can also reach us through our state-of-the-art Contact

WINNING THE APPROVAL OF NEW HOME BUYERS

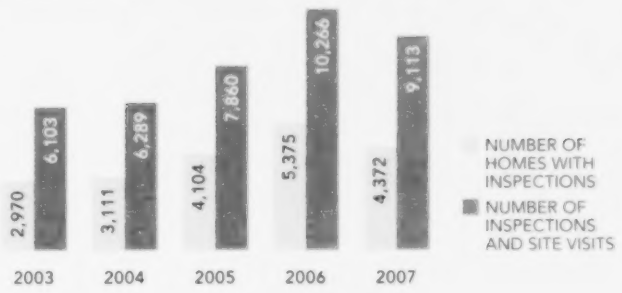
Centre, which has been designed to provide Ontarians in all parts of the province with quick and easy access to our services. The Contact Centre staff respond to hundreds of enquiries each day from homeowners, builders, lawyers and others who require information about warranty coverage or call us with specific questions about a particular new home file.

In 2007, Contact Centre staff responded to over 208,000 telephone calls, and more than 8,000 emails, making them the front line for demonstrating our customer service commitment. The high levels of homeowner satisfaction indicated in the Harris/Decima survey for accessibility and advocacy (likelihood to say positive things) can be attributed in part to strides made this year in our Contact Centre. These include a decrease in call wait times from an average of 50 seconds in 2006 to 24 seconds in 2007, and a 6 per cent drop in unanswered calls, which now account for just 3 per cent of calls. In addition, a software application was implemented to enable end-to-end tracking and recording of all Contact Centre telephone calls, which permits online audits of call quality and helps identify areas where Contact Centre representatives could benefit from additional training.

CLAIMS ACTIVITY AND RESOLUTION

High levels of new home enrolments, along with increased consumer knowledge of the statutory warranty and the deadlines for submitting warranty related forms, continue to impact on the degree to which homeowners are exercising

HOMES WITH INSPECTIONS AND TOTAL INSPECTIONS AND SITE VISITS



their warranty rights. A total of 58,996 purchasers took possession of a new home in 2007, with 46 per cent submitting a 30-Day Statutory Warranty Form. The number of 30-Day and Year-End Forms submitted as a percentage of possessions continued to increase over 2006. However, most warranty issues are resolved between the builder and homeowner without Tarion's intervention, a strong indicator that the majority of builders are meeting or surpassing the minimum regulatory customer service standards.

Warranty Service Statistics	2004	2005	2006	2007
Total New Home Possessions	69,183	65,826	61,213	58,996
Number of 30-Day Forms Submitted	25,670	28,358	27,011	26,890
Percentage of Homes for Which 30-Day Forms Were Submitted	37%	43%	44%	46%
Number of Year-End Forms Submitted*	25,647	25,682	24,751	n/a
Percentage of Homes for Which Year-End Forms Were Submitted*	37%	39%	40%	n/a

*Year-End Form data for 2007 possessions will not be completely available until December 31, 2008.

Almost 60,000 Ontarians took possession of a new home in 2007.

If warranty issues are not resolved to a homeowner's satisfaction, a Conciliation Inspection can be requested by the homeowner, and Tarion will step in to settle disputes about warrantable items. In 2007, Tarion made 9,113 visits to freehold homes and condominium units and the common element areas of condominiums (in some cases, multiple visits were required). The Claims Department conducted conciliation or claim inspections on 4,372 homes. These figures represent a year-over-year decrease of 11 per cent in inspections and site visits and an 18 per cent decrease in homes with inspections. These decreases can be attributed to the conclusion of a two-year project that increased the number of inspections in 2006 and early in 2007. The project was focused on resolving homeowner files that were opened prior to October 2003 when a new and more efficient claims process was introduced. We expect the number of inspections in 2008 to represent a more standard level of activity.

In 2007, total claims paid by Tarion increased slightly to $13.2 million from the $11.9 million paid the previous year. This difference can be attributed to claims payments related to four large-scale developments, totalling $2,738,000, for which payment provisions had been established in 2006 or prior, but which were not actually made until 2007.

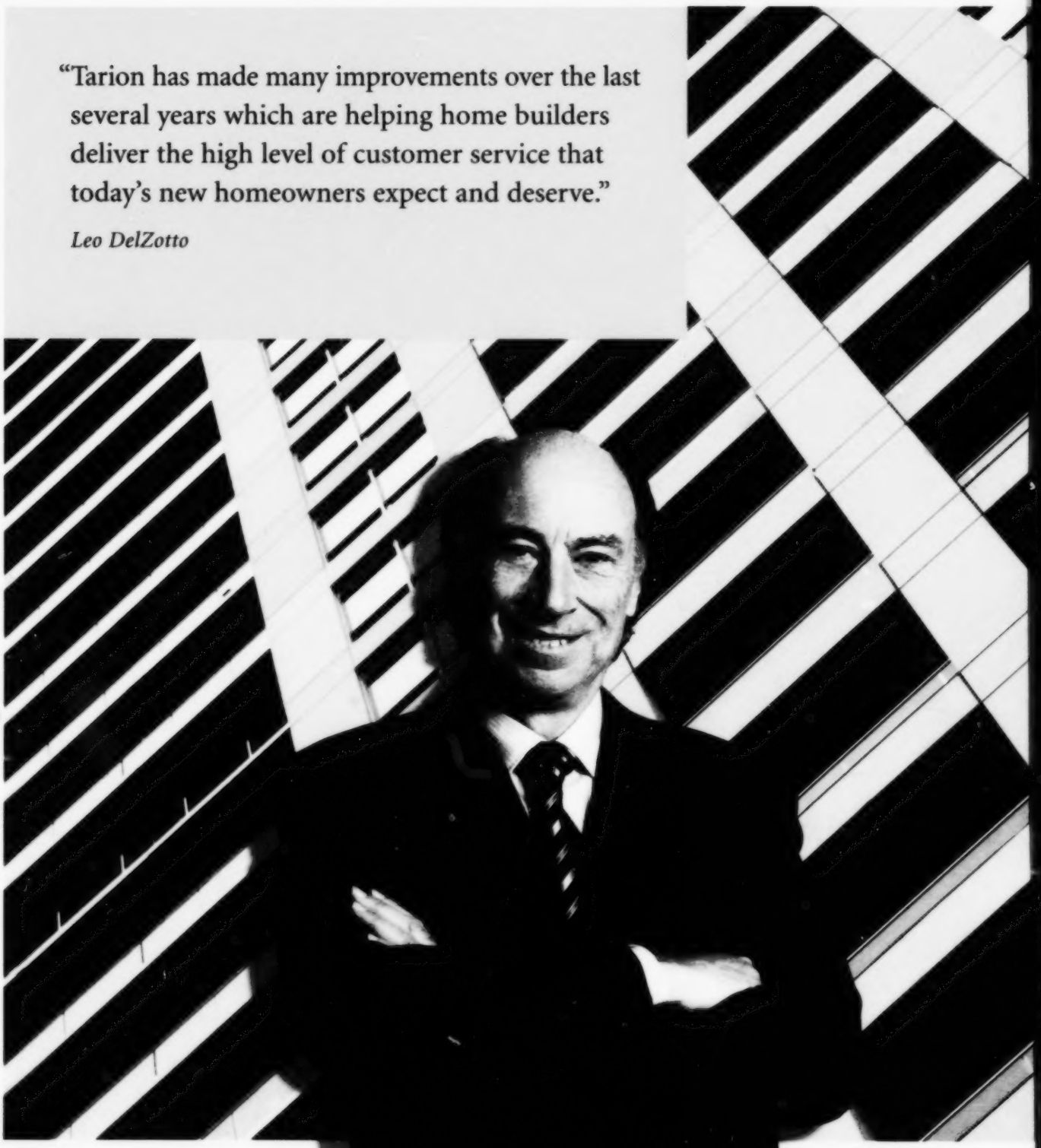
Claims Paid	2004	2005	2006	2007
Number of Claims Paid	1165	1181	1189	1059
Claims paid ($ millions)				
Freehold Homes	6.8	8.8	8.8	8.9
Condominium Units	1.5	1.5	0.3	0.9
Condominium Common Elements	4.2	3.2	2.6	3.2
Total	12.5	13.5	11.9	13.2

THE APPEALS PROCESS

The Ontario License Appeal Tribunal (LAT) is an informal process for consumers who wish to appeal Tarion decisions concerning compensation claims, and for builders who would like to appeal a decision to refuse a new license to build new homes in Ontario, or to revoke an existing license. LAT is an independent tribunal created by the Ontario government to provide an impartial appeals process. In 2007, 158 consumer appeals were filed with LAT representing a 28 per cent decrease year-over-year and 56 builder appeals were filed, representing a year-over-year increase of 75 per cent.

"Tarion has made many improvements over the last several years which are helping home builders deliver the high level of customer service that today's new homeowners expect and deserve."

Leo DelZotto



LEO DELZOTTO
President
TRIDEL CORPORATION

LEADING THE WAY FOR ONTARIO'S HOME BUILDERS

As the regulator of Ontario's new home building industry, it is important that we understand how Tarion is viewed by home builders.

Just as Tarion surveyed homeowners in 2007 about its customer service and performance, Tarion also commissioned an independent survey to gauge how new home builders view Tarion and the services provided to them. A study of 281 builders with at least one possession during the last year was conducted in the latter half of 2007 by Redfern Research. The findings were very positive overall, with 89 per cent of builders indicating that they were satisfied with Tarion's performance, and 85 per cent stating they were satisfied with their interactions with Tarion. The vast majority of builders gave us high marks for customer service, use of technology, communication, and our efforts to reduce illegal building activity, and they viewed us as accessible, fair and consistent.

Part of our evolution into a modern, customer-focused organization involved the creation of new policies to help Ontario's home builders compete in a marketplace where new home buyers demand very high levels of customer service. This began in 2003, with the launch of the *Customer Service Standard*, which includes minimum repair timelines, a mandatory pre-delivery inspection (PDI), a standard *Homeowner Information Package* (HIP) and a set of Construction Performance Guidelines (CPG). The goal of these reforms was to provide purchasers with better access to information about the statutory warranty, and a clearer process to be followed for making warranty service requests. Asked by Redfern Research about their impact on both new home builders and purchasers, 93 per cent of new home builders viewed the HIP as a good change, and similar views are held about the PDI, minimum repair timelines and CPG – all of which were rated as good changes by over 80 per cent of builders surveyed.

Builder Survey

Satisfaction Drivers	Agree
Tarion encourages excellence in customer service	92%
Tarion is making good use of modern technology	87%
Tarion has improved the way it interacts and communicates with builders	81%
Tarion is working hard to reduce illegal building activity	76%
The Homeowner Information Package is a good change for your company	93%
Tarion is accessible	87%
Tarion is fair	82%
Percentage of builders with no issue or concerns about changes Tarion has made	89%
Percentage of builders who say they are satisfied with Tarion's overall performance	89%

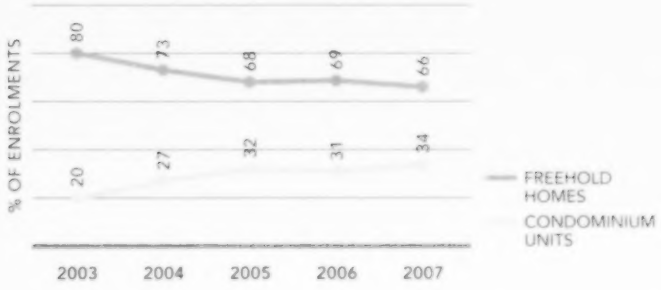
A RAPIDLY CHANGING MARKETPLACE

Against a background of policy and procedural change at Tarion, new home builders in the province have also been adapting to dramatic marketplace shifts over the past five years. Foremost among these is the growth of condominium popularity among new home buyers, a trend that is being fuelled by such factors as affordability and government initiatives including the Ontario Government's *Places to Grow Act*, which requires at least 40 per cent of residential land development to occur within existing built-up areas. As a result, many markets in Ontario are experiencing unprecedented condominium development, particularly Toronto and the surrounding area where 80 per cent of new condominium construction is taking place.

The trend toward high-rise living can be seen in Tarion's operational statistics. Of the 66,958 homes enrolled with Tarion in 2007, 34 per cent were condominium units, which marks a 17.6 per cent increase over condominium units enrolled in 2006. Total enrolments, which include freehold homes as well as condominiums, were up as well by 7 per cent year-over-year and the number of registered builders climbed slightly from 5,777 in 2006 to 5,809 in 2007.

Licensing and Underwriting Statistics	2003	2004	2005	2006	2007
New Home Enrolments					
Freehold Homes	57,680	54,655	50,048	43,015	44,151
Condominium Units	14,395	20,190	23,685	19,393	22,807
Total	72,075	74,845	73,733	62,408	66,958
Builder/Vendor Registrations	5,150	5,394	5,629	5,777	5,809
License Refusals/ Revocations	94	56	104	79	99

FREEHOLD VS CONDOMINIUM
5 YEAR ENROLMENT TREND



In addition to being responsible for licensing new home builders in Ontario and enrolling new homes, Tarion also requires builders to post security to protect the Guarantee Fund from which warranty claims are paid. Security in the form of surety bonds, letters of credit, deposit trust agreements, cash and indemnity agreements amounted to $1.524 billion in 2007, up by 18 per cent since the end of 2006 when the total security portfolio stood at $1.291 billion. Much of this increase can be attributed to the growing number of complex large-scale condominium projects on which Tarion collects more security to mitigate the inherent greater levels of risk.

Builder Security	2003	2004	2005	2006	2007
Freehold Homes ($ 000s)	41,841	49,541	68,635	80,227	88,187
Condominiums ($ 000s)	1,033,446	1,089,352	1,221,651	1,210,916	1,435,431
Total	1,075,287	1,138,893	1,290,286	1,291,143	1,523,618

HELPING BUILDERS DEAL WITH A CHANGING MARKETPLACE

Tarion's Builder Relations Department is the Corporation's direct link to Ontario's new home builders, who have come to regard the Department's staff and services as extremely useful in helping them to better understand our practices, the processes involved with the statutory warranty and the impact of high customer expectations on their business operations.

The Builder Relations Department offers a number of services, including File Review Clinics to provide builders with an opportunity to meet face-to-face with senior Tarion staff. Regular meetings for builders provide an opportunity to share ideas and problem-solving techniques, particularly with regard to customer service, and to learn more about timely issues and challenges facing the industry such as the growth in the sales of high-rise condominium units. Since their introduction in 2005, the File Review Clinics have continued to grow in popularity, with a total of 35 Clinics held during 2007 attended by representatives from 483 registered builders. In addition to being held in Tarion's Toronto, Ottawa and London Customer Centres, Clinics also took place in St. Catharines, Guelph, Brantford, Windsor, Thunder Bay, Sudbury, Belleville, Barrie, Dryden, Fort Francis, Kenora and Sault Ste. Marie.

LEADING THE WAY FOR ONTARIO'S HOME BUILDERS

BUILDER PORTAL CONTINUES TO SUPPORT EFFICIENCY

Perhaps one of the most ambitious projects undertaken over the past two years is the Tarion Builder Portal, a secure Internet-based tool which provides builders with online access to the forms and documents submitted to Tarion by their homeowners. Introduced in late 2005, the Portal was designed to help builders enhance the efficiency of their day-to-day operations – particularly in the area of customer service – and it has evolved since then with the ongoing addition of useful features and capabilities.

During the first quarter of 2007, a new feature was added which allows builders to enter home enrolment data online. In addition to simplifying the enrolment process and significantly reducing paperwork, this new feature offers several other benefits including: the secure real-time transmission of information to Tarion, and the ability to enter multiple units which share similar information. As of year-end, builders had submitted 20,859 online enrolments to Tarion, representing 31 per cent of total enrolments in 2007.

The Portal's evolution continued during the latter part of 2007 with the addition of two other features. The first is an option that allows builders to discontinue receiving notices related to the Customer Service Standard by mail. The second feature allows builders to monitor data related to their performance in meeting the stated timelines for submission of required forms such as Homeowner Information Package Acknowledgement Forms and Certificates of Completion and Possession.

The e-business capabilities of Tarion's Builder Portal were enhanced during 2007 with the addition of an online enrolment feature, allowing builders to transmit home enrolment data to Tarion online – quickly, efficiently and avoiding the paperwork related to the old process.

The number of builders making use of the Portal continues to grow. By year end, there were 1,980 builders using the Portal, representing 87 per cent of 2007 new home possessions in Ontario.

EXPOSING ILLEGAL BUILDING

The prolonged vibrancy of Ontario's new home marketplace has encouraged some unregistered builders who do not 'play by the rules.' Our Enforcement Department is comprised of former police officers who are responsible for identifying and investigating illegal building activity. Tarion takes seriously its commitment to creating an industry environment in which conscientious builders can prosper and consumers can have the utmost confidence.

Under the *Ontario New Home Warranties Plan Act*, every builder or vendor of a new home sold in Ontario must be licensed by Tarion and must enrol each new home prior

The Tarion Builder Portal continues to evolve with the ongoing addition of useful features and capabilities.

to its construction. Process changes made this year have allowed investigators to focus on cases with a higher possibility of involving illegal building. This has resulted in fewer new investigations being opened, but led to a 61 per cent increase in charges laid. The provincial courts continued to assist in the fight against illegal building by handing down 320 convictions, which represents a 32 per cent increase year-over-year. Total fines dropped slightly due to the fact that in 2006, large fines were levied in four cases, including one exceptionally large fine of $260,250.

Enforcement Activity	2003	2004	2005	2006	2007
New investigations	700	961	993	759	449
Fines levied ($ 000's)	422	575	817	674	616
Charges laid	831	993	243	364	592
Convictions	560	467	287	218	320

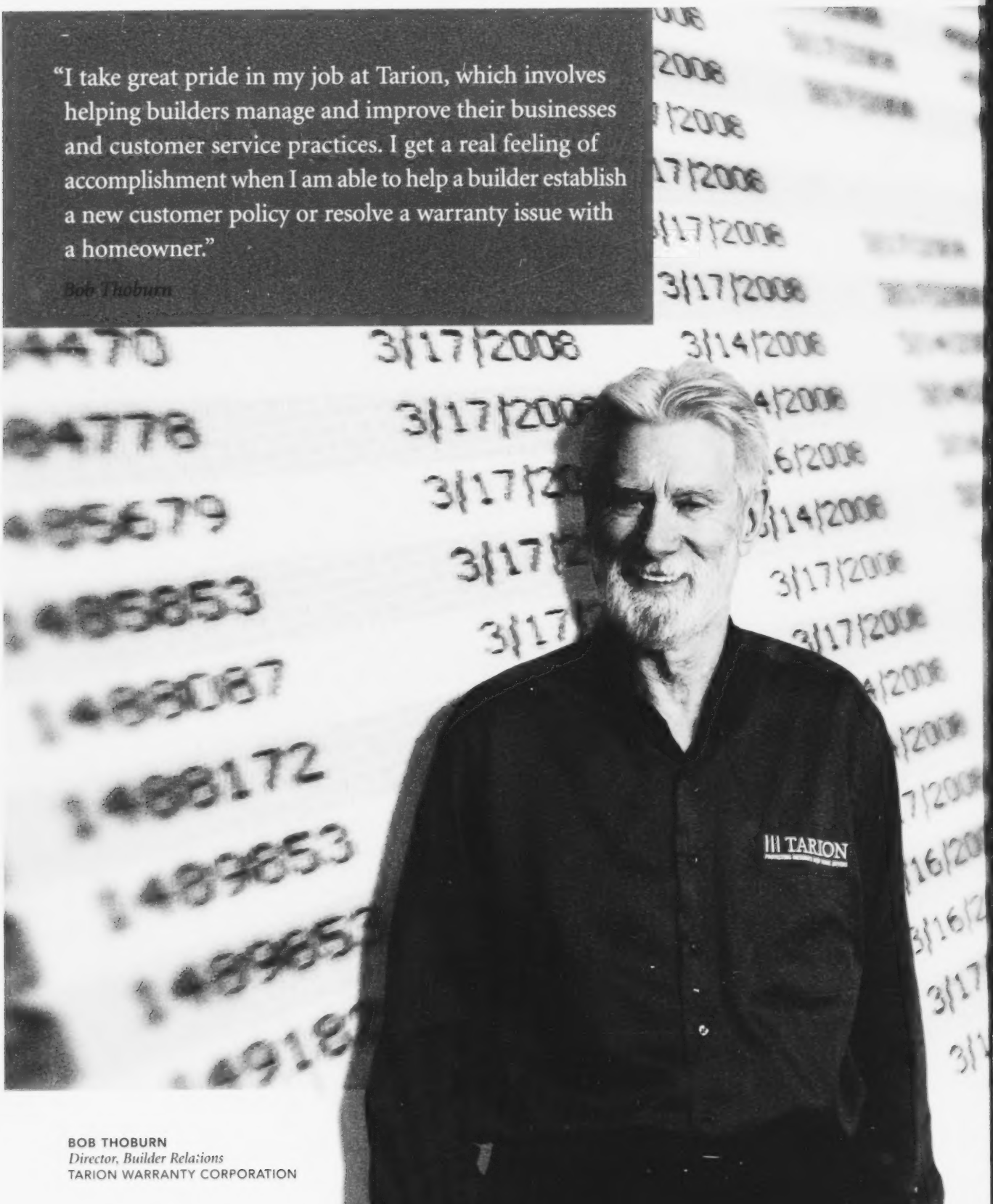
The Honourable Steve Peters, Ontario Minister of Labour, announced a joint enforcement agreement with Tarion designed to further assist in the investigation and prosecution of activities related to illegal building in the province.

For the past 17 years, the Tarion Awards of Excellence have recognized new home builders in Ontario that demonstrate outstanding customer service. More than 400 guests attended a gala event at the Royal Ontario Museum in Toronto in honour of the 2007 award recipients.

In May 2007, Tarion's enforcement activities got a further boost as Tarion entered into an agreement with Ontario's Ministry of Labour to allow the exchange of information about the location of suspected illegal building. Through this initiative, Tarion advises the Ministry of situations in which a builder has not complied with the registration requirements of the *Ontario New Home Warranties Plan Act*, and the Ministry notifies Tarion of locations where potentially unregistered home building is taking place, thus enabling Tarion to begin its own investigation.

"I take great pride in my job at Tarion, which involves helping builders manage and improve their businesses and customer service practices. I get a real feeling of accomplishment when I am able to help a builder establish a new customer policy or resolve a warranty issue with a homeowner."

Bob Thoburn



BOB THOBURN
Director, Builder Relations
TARION WARRANTY CORPORATION

ENABLING EXCELLENCE IN CUSTOMER SERVICE

The changes that helped create the Tarion of today could not have taken place without significant contributions from Tarion's employees.

Their dedication and hard work is clearly evident in the positive feedback received in the customer satisfaction surveys conducted with new homeowners and builders.

To ensure that we also understand how Tarion's staff view the Corporation, Tarion has retained a well-respected independent third party to conduct periodic employee opinion surveys. In 2007, employees were given the opportunity to participate once again in a survey developed and implemented by The Hay Group, a human resources consulting firm. Through it, we were able to gather information on how employees view Tarion in areas ranging from leadership and direction, to rewards and career advancement, as well as work/life balance, retention, workforce equity and values. Almost 90 per cent of Tarion's 240 employees took part in the survey and the findings were very positive.

Tarion's overall results were 11 per cent more favourable than the "Hay Overall Norm," a benchmark that incorporates survey data from 500 high performing North American companies. Key areas of strength included: employee attraction and retention; availability of career advancement opportunities; provision of an enabling environment, including effective information technologies and systems; and tangible rewards such as salary and benefits. Most encouraging was the fact that 78 per cent of employees indicated that they take pride in working for Tarion.

Employee Survey

Selected Findings of Hay Group Survey of Tarion Employees	Agree
Tarion is customer driven	79%
I feel that my work makes a real contribution to the success of Tarion	88%
I feel proud to work for Tarion	78%
Considering everything, I am satisfied with Tarion overall	75%
Service excellence is practiced at Tarion	81%
Tarion treats me with respect as an individual	78%
Tarion has effective information technologies and systems	84%
Tarion provides the formal training I need to help me handle my present job more effectively	85%

COMMITMENT TO ONGOING DEVELOPMENT

The quantity and quality of staff training represents a key component of employee satisfaction, and in this regard Tarion is strongly committed to providing staff with opportunities to build on their skills to both advance their own careers and to improve the Corporation's organizational capacity. During 2007, employees spent an average of 8.8 days in some type of formal training. Training is available to help employees build their technical skills, their general business skills and their customer service ability in order to help them successfully deliver on Tarion's Corporate objectives and meet our customer service and job performance standards.

Employees like Carol Forrester, a Senior Document Processor in our Contact Centre, help bring to life on a daily basis Tarion's commitment to providing Ontario new home buyers and builders with the highest levels of customer service.

During 2007, employees spent an average of 8.8 days in some type of formal training.

To meet our ongoing training objectives, Tarion has developed a Learning and Development Catalogue to help employees improve their business skills. It identifies training options covering 14 different skill sets including communications, problem-solving and teamwork development, all of which are in high demand by employees. In addition, customized training was developed for specific operational areas, such as a Harvard-based program on negotiation skills which was delivered to all Claims Department field staff.

Keeping abreast of issues facing Ontario's new home buyers and understanding the opportunities and challenges facing the residential building industry in general, are also key to our employees' ability to competently and responsively carry out their jobs.

To this end, the popular lunchtime speaker series – *The Inside Story* – continued to expose employees to a wide array of industry representatives and thought leaders in 2007. Among this year's speakers were: J.D. Power & Associates Senior Director, Darren Slind, who spoke about 'Raising the Voice of the Customer'; Blair Thompson, founder of Automated Home Technologies, who discussed lifestyles of the future; Lucio Di Clemente, a Regional President at Mattamy Homes, who provided details on his company's unique approach to customer service; and Morris Lucchetta, Manager of Building Inspections for Richmond Hill, Ontario, who explained 'How Building Departments Do Their Homework'.

A key Tarion priority is to offer continuous learning opportunities to employees, with the aim of helping them learn new skills, build upon their existing knowledge base and better equip them to fulfill the Corporation's customer service objectives.

TECHNICAL TRAINING

During 2007, employees in the Claims Department received skills training in several important areas. The staff in this department are responsible for negotiating prompt and effective solutions when differences of opinion arise about the way that a warranty issue should be resolved between homeowners and builders. To assist them, customer service training focused on managing conflicts and seeking win-win resolutions was provided. In addition, they were given training on the Ontario Building Code, as well as skills development in construction methods and techniques, defect recognition, and scoping and estimating warranty deficiency repair costs. This type of technical training is critical for ensuring that Tarion staff are up-to-date on changes to construction practices, in order to provide consistent assessments.

RECOGNIZING INDUSTRY LEADERS IN CUSTOMER SERVICE

Tarion's Awards of Excellence recognize the customer service efforts of builders of all sizes in Ontario. The awards selection process was taken to a new level in 2007 as the opinions of recent home buyers were the only factor used in the selection process.

LARGE VOLUME CATEGORY

2007 WINNER:
MATTAMY HOMES
Toronto, Ontario

HIGH-RISE CATEGORY

2007 WINNER:
TRIDEL
Toronto, Ontario

In 2007, the opinions of almost 11,000 homeowners were gathered through a Harris/Decima survey that was mailed to over 53,000 consumers, representing more than 90 per cent of consumers who took possession of a new home during 2006. Questions were comprehensive, covering all aspects of customer service – from the time of the purchase agreement through construction and pre-delivery activities to after-sales service responsiveness. Participants were able to respond in English, Mandarin or Punjabi either by mail or through a special website. The entire process was managed independent of Tarion by Harris/Decima Research.

Awards were given in four categories: Large, Medium and Small Volume Builder of the Year as well as High-Rise Builder of the Year. Top honours went to: Tridel in the High-Rise Category; Mattamy Homes in the Large Volume Category; Noah Homes in the Medium Volume Category; and Menard Brothers in the Small Volume Category.

The spectacular new Michael Lee-Chin Crystal at the Royal Ontario Museum in Toronto provided an exciting new venue for the 2007 Awards of Excellence Gala which was attended by more than 400 guests. Joining the 2007 finalists and a host of home builders from across the province attending in support of their peers, were representatives from the Ministry of Government & Consumer Services, past winners and finalists, as well as members of Tarion's Board of Directors and senior management team.

MEDIUM VOLUME CATEGORY

2007 WINNER:
NOAH HOMES
Kingsville, Ontario

SMALL VOLUME CATEGORY

2007 WINNER:
MENARD BROTHERS & ASSOCIATES
Cornwall, Ontario

In keeping with a tradition whereby past winners address Gala attendees to offer their insights into the importance of customer service excellence, Mike Memme, Head of Operations for Mountainview Homes of Thorold, a former Tarion Award Winner, explained his company's service philosophy, and the value of winning a Tarion Award of Excellence. In his words: "*Winning a Tarion Award of Excellence means that we should be proud of what we have achieved as a company when it comes to customer service. Our present and future clients can rest assured that we will follow through on the promises we make.*"

2007 TARION AWARD OF EXCELLENCE FINALISTS

Of Ontario's 5,800 registered new home builders in 2007, only the following 18 emerged as Finalists for a 2007 Tarion Award of Excellence:

LARGE VOLUME BUILDERS
ARISTA HOMES, *Vaughan*
HAYHOE HOMES, *St. Thomas*
MATTAMY HOMES, *Toronto*
MOUNTAINVIEW HOMES, *Thorold*
TRIBUTE COMMUNITIES, *Toronto*

MEDIUM VOLUME BUILDERS
GREGOR HOMES, *Barrie*
IVYSTONE HOMES (1991) LTD., *Waterloo*
NEILCORP HOMES, *Ottawa Valley Region*
NOAH HOMES, *Kingsville*
POLICELLA HOMES, *Welland*

SMALL VOLUME BUILDERS
CEDARSTONE HOMES LIMITED, *Ottawa Region*
MENARD BROS. & ASSOCIATES LTD., *Cornwall*
O.C. LONG CONTRACTING LTD., *Grey Bruce County*
RINALDI HOMES, *St. Catharines*
ROCHON CONSTRUCTION (853040 ONTARIO INC.), *North Bay*

HIGH-RISE BUILDERS
THE DANIELS CORPORATION, *Toronto*
MONARCH CORPORATION, *Toronto*
TRIDEL, *Toronto*

RESPONSIBILITIES OF THE COMMITTEES OF THE BOARD

MEMBERS	KEY RESPONSIBILITIES

AUDIT COMMITTEE

Dick Brouwer *Chair*
Scott Cameron
Julie Di Lorenzo
Harold Levy
Peter Oakes
Chris Spiteri

The Audit Committee, composed entirely of independent Directors, reviews the annual audited financial statements and financial operating performance, the assessment of reserves and the results of capital adequacy testing. The Committee is responsible for the development and monitoring of policies to address risk management as well as the internal control framework. The Committee also makes recommendations to the Board with respect to the appointment of an external auditor, the external actuary and the pension plan actuary and administrator.

COMPENSATION COMMITTEE

Robert Wade *Chair*
Rob Cooper
Julie Di Lorenzo
Brian Johnston
Peter Oakes

The Compensation Committee is responsible for determining the compensation payable to the members of the executive management of the Corporation including pension and other benefits. The Committee works with external compensation advisers who provide information with respect to current market compensation payable to senior executives of comparable organizations.

The Committee is also responsible for approving the annual objectives for the President & CEO, and for evaluating performance against those objectives. The Committee also undertakes an annual succession review of the senior management team in consultation with the President & CEO. The membership of the Committee includes the Chair of the Board of Directors, together with four other members of the Board.

CONSUMER & COMMUNICATIONS ADVISORY COMMITTEE

Harry Herskowitz *Chair*
Deborah Brown
Harold Levy
Mary Pitt
Bob Ridley
Peter Saturno
Chris Spiteri

The Consumer & Communications Advisory Committee acts as a forum to provide input to management and the Board on strategic matters with respect to consumer protection initiatives and external communication by Tarion to consumers.

The Committee includes members of the Board who represent Tarion's major stakeholders, together with external members with expertise in consumer relations and/or the communications and marketing industry.

The Committee assists Tarion management with consumer policy development and development of communications strategy by acting as a sounding board to provide insight and input on issues, by making recommendations regarding the development and delivery of consumer protection policies, by analyzing relevant consumer research data, and by giving insight into current communication programs and trends.

GOVERNANCE COMMITTEE

Robert Wade *Chair*
Deborah Brown
Harry Herskowitz
Peter Saturno
Peter Smith

The Governance Committee has been established to provide recommendations to the Board with respect to governance matters affecting the Corporation. The Committee has responsibility for developing and recommending ongoing improvements to corporate governance, and also for updating as necessary the Code of Governance Practices which is executed by each Director annually.

The Committee is also responsible for recommending the Chair for each Board Committee in advance of the Annual Meeting of the Corporation, together with the membership for each Committee. The Committee also recommends the Chair and Vice Chair appointments to the Board for the ensuing year. The Governance Committee is responsible for providing input into the Board nomination process to ensure that the Board has Directors with the appropriate skills and background to address the business issues of the Corporation. The membership of the Committee includes the Chair of the Board, together with four other Board members.

INVESTMENT COMMITTEE

Brian Johnston *Chair*
Scott Cameron
Rob Cooper
Peter Smith
Chris Spiteri

The Investment Committee considers and recommends investment strategies, plans and policies related to the invested assets of the Corporation. The Committee oversees the selection and appointment of one or more investment managers and reviews and approves the investment policies of the Corporation each year. It also reviews reports from fund managers on investment activities and measures investment results against the investment goals of the Corporation. In addition, the Committee is responsible for the management of assets related to the pension plan of the Corporation.

BOARD OF DIRECTORS

ROBERT E. WADE
Chairman
(former Mayor of Hamilton)
HAMILTON

DICK BROUWER
Partner
ZEBRO DEVELOPMENT LTD.
LONDON

DEBORAH BROWN
Director, Sector Liaison Branch
MINISTRY OF CONSUMER
AND GOVERNMENT SERVICES
TORONTO

S. SCOTT CAMERON
President
CAMERON STEPHENS
MORTGAGE CAPITAL LTD.
TORONTO

ROBERT COOPER
President
ALTERRA GROUP
OF COMPANIES
TORONTO

JULIE DI LORENZO
President
DIAMANTE DEVELOPMENT
CORPORATION
TORONTO

GREGORY W. GEE
President &
Chief Executive Officer
TARION WARRANTY
CORPORATION
TORONTO

HARRY HERSKOWITZ
Vice Chair
Partner
DELZOTTO, ZORZI
TORONTO

BRIAN K. JOHNSTON
President
MONARCH CORPORATION
NORTH YORK

HAROLD LEVY
Corporate Director
TORONTO

G. PETER OAKES
Corporate Director
TORONTO

BOB RIDLEY
Vice President
MINTO SUBURBAN
COMMUNITIES
OTTAWA

PETER SATURNO
President
MIDHAVEN HOMES
OSHAWA

PETER R. SMITH
President
ANDRIN HOMES LIMITED
BRAMPTON

CHRISTOPHER S. SPITERI
Associate
AUGUSTINE BATER
POLOWIN LLP
OTTAWA

MARK BASCIANO
(OHBA Observer)
President
MOUNTAINVIEW HOMES
THOROLD

GOVERNANCE POLICIES

The Board of Directors of Tarion Warranty Corporation is committed to a series of governance policies which are intended to support the supervisory role of the Board and to ensure that the Corporation acts in the best interests of its stakeholders. Some highlights of the Board's current governance practices include the following:

INDEPENDENCE

To ensure independence of the Board and management, an outside Director acts as Chair of the Board. Only one Director, the President & Chief Operating Officer, is a member of Tarion management.

BOARD COMPOSITION

In accordance with the by-laws of the Corporation, membership on the Board of Directors is comprised of a number of stakeholders with an interest in the home building industry in Ontario, including representatives from the Ontario Home Builders' Association (OHBA), consumer advocates, financial institution representatives and those from provincial and municipal governments. In 2004, the by-laws of the Corporation were amended to provide for the appointment of Directors from nominees recommended by each of the OHBA and the Ministry of Government & Consumer Services. The Board currently has 15 members and two associate members.

FINANCIAL CONTROLS

The Audit Committee of the Board is composed entirely of outside and unrelated Directors whose responsibilities are set forth in a detailed Committee mandate. The Committee has the opportunity to deal directly with the external auditor regarding issues arising from the financial statements and with the external actuary regarding the reserves of the Corporation.

RISK MANAGEMENT

The Board, together with the Audit Committee, monitors reviews and approves adherence to corporate policies to manage and control risk, as well as compliance with policies of the Corporation and regulatory requirements.

STRATEGIC PLANNING

The Board engages in a strategic planning process each year which takes into account business policy initiatives and opportunities, as well as operational and financial risks. Throughout the year the Board reviews corporate performance against the Company's annual business plan and the current strategic plan.

BOARD COMMITTEES

Membership in Board Committees is composed of non-management members of the Board of Directors. In 2007, a Compensation Committee and a Governance Committee were constituted to replace the Executive Committee. The Board also has an "Advisory Committee" on Consumer & Communications Activities, which includes participation by external advisors with expertise in specific disciplines or areas of interest to the Corporation.

ANNUAL PERFORMANCE OBJECTIVES

The Board approves the annual business plan of the Corporation as well as the annual objectives of the Chief Executive Officer. All employees of the Corporation have written performance objectives each year.

CODE OF GOVERNANCE PRACTICES

Each member of the Board is required to sign a Code of Governance Practices that has been approved by the Board. This Code is intended to assist the Directors in performing their responsibilities to the Corporation with appropriate discipline and dedication.

DIRECTORS' ATTENDANCE FOR 2007

Robert E. Wade	7 of 7	5 of 5
Mark Basciano	3 of 3	0 of 0
Dick Brouwer	6 of 7	3 of 3
Deborah Brown	5 of 5	3 of 3
S. Scott Cameron	7 of 7	4 of 4
Robert Cooper	7 of 7	3 of 4
Julie Di Lorenzo	7 of 7	3 of 4
Gregory W. Gee	7 of 7	19 of 19
Harry Herskowitz	7 of 7	6 of 6
Brian K. Johnston	6 of 7	6 of 7
Harold Levy	3 of 3	2 of 2
Peter Oakes	2 of 2	2 of 2
Bob Ridley	3 of 4	2 of 2
Peter Saturno	7 of 7	3 of 3
Peter R. Smith	6 of 7	3 of 4
Christopher Spiteri	7 of 7	6 of 7

NOTES ON DIRECTOR ATTENDANCE

1. The record of attendance of Directors relates to the Meetings of the Board of Directors and of the Board Committees held by the Corporation during 2007.
2. The number of Board and of Board Committee meetings held by the Corporation during 2007 was as follows:

Board of Directors	7
Executive Committee	2
Audit Committee	3
Investment Committee	3
Consumer & Communications Advisory Committee	2
Compensation Committee	1
Governance Committee	1
Total	19

FINANCIAL STATEMENTS

The Corporation's ongoing financial strength and stability are a strong testament to prudent decision-making and strategic planning undertaken by the Tarion Management Team and Board of Directors. In 2007, Tarion continued to maintain its financial strength, weathering volatility in the financial markets, and is well positioned to maintain this strength should a substantive downturn in the housing market occur.

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FINANCIAL COMMENTARY

The housing market enjoyed another strong year in 2007, with housing unit enrolment exceeding 2006 levels, most notably in the high-rise condominium market. Total enrolments for 2007 were 7.3 per cent higher than 2006.

Overall, the Corporation experienced an Excess of Revenue over Expenses of $2.2 million, despite volatility in the financial markets and higher net claims incurred.

On January 1, 2007, as required by the Canadian Institute of Chartered Accountants, the Corporation adopted the new financial instruments accounting standards. The most significant impact to the financial results is the accounting of the investment portfolio: the investments are now recorded at fair value. We decided to designate the fixed income portfolio as held for trading financial assets so that any changes in fair value, realized or unrealized, are now recognized in the Statement of Operations. The stock portfolio was designated as available for sale assets. As such, any change in the fair value of a stock position is recorded in the equity section of the Balance Sheet and only moves to the Statement of Operations when the investment is sold.

The Corporation realized net positive investment gains in its stock portfolio of $8.4 million and experienced net losses (realized and unrealized) of $1.1 million in its bond portfolio in 2007. 2006 investment gains were significantly higher due to the restructuring of the investment portfolio following the appointment of an additional investment manager.

Net claims incurred returned to a normal level in 2007, at $6.9 million after experiencing an unusually low claims year in 2006. Provisions for new claims and changes to existing claims provisions increased by $12.4 million over 2006, primarily due to new claims and increased provisions resulting from a review of litigation files. Total recoveries increased by $4.7 million, mainly due to the refinement of the process for identifying recoverable amounts from builders.

During the year, the Corporation made significant progress in many of its financial enhancement initiatives. The automation project, for example, to update its billings and collection processes, as well as its claim reserving process is near completion.

The Corporation continues to maintain its strong financial strength, weathering recent volatility in the financial markets. As we progress through 2008, Tarion is well positioned to maintain this strength should a substantive down turn in the housing market occur.

AUDITORS' REPORT

To the Directors of Tarion Warranty Corporation

We have audited the balance sheet of Tarion Warranty Corporation (the "Corporation") as at December 31, 2007 and the statements of operations, of comprehensive results of operations, of changes in equity and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 29, 2008

ACTUARY'S REPORT

To the Directors of Tarion Warranty Corporation

I have reviewed the warranty liabilities of Tarion Warranty Corporation for its Balance Sheet as at December 31, 2007 and their change in the Statement of Operations for the year then ended in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the financial statements fairly present the results of the review.

Jim Christie

James K. Christie
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 29, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

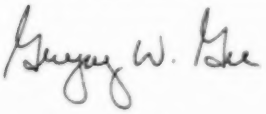
Management is responsible for the integrity of the financial statements and operational information presented in this Annual Report. The financial statements have been presented in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with these financial statements.

Management maintains a system of internal controls, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The external actuary who is appointed by the Audit Committee is responsible for ensuring that the assumptions and methods used in the determination of the warranty liabilities are in accordance with accepted actuarial practice.

External auditors have examined and reported on the financial statements.

The Audit Committee, consisting of non-executive directors, has reviewed these financial statements with management and the external auditors and has reported to the Board of Directors, which has approved the financial statements.



Gregory W. Gee
President & Chief Executive Officer
February 29, 2008

John Becevello
Vice President & Chief Financial Officer
February 29, 2008

BALANCE SHEET

December 31, 2007 ($ thousands)	2007	2006
Assets		
Cash (Overdraft)	**$ (319)**	$ 400
Investments (Notes 3c, 5)	**314,521**	276,843
Capital assets (Note 7)	**7,094**	6,136
Amounts recoverable from builders	**6,231**	2,319
Prepaid expenses and other assets	**762**	529
	$ 328,289	$ 286,227
Liabilities		
Warranty liabilities (Notes 3c, 8)	**$ 142,668**	$ 135,962
Funds held as security (Note 9)	**36,430**	37,001
Accounts payable and accrued liabilities (Note 7)	**9,616**	7,261
Employee future benefits liabilities (Note 10)	**1,663**	1,336
	190,377	181,560
EQUITY (Note 4)		
Appropriated surplus	**47,000**	44,000
General surplus	**65,099**	60,667
Accumulated net unrealized gains in the equity portfolio (Note 3c)	**25,813**	–
	137,912	104,667
	$ 328,289	$ 286,227

Approved by the Board

Robert E. Wade
Director and Chair of the Board

Dick Brouwer
Director and Chair of the Audit Committee

STATEMENT OF OPERATIONS

Year ended December 31, 2007 ($ thousands)	2007	2006
Revenue		
Home enrolment fees earned	$ 33,240	$ 33,037
Builders' registration and renewal fees	2,055	1,985
Investment results		
Investment income (Note 5b)	17,576	36,142
Investment management fees	(805)	(739)
Other revenue	109	220
	52,175	70,645
Expenses		
Net claims incurred (recovered) (Note 8)	$ 6,947	$ (817)
Salaries and benefits	24,520	22,627
General and administrative	15,793	15,430
Depreciation and amortization	2,745	3,381
	50,005	40,621
Excess of Revenue Over Expenses for the Year	$ 2,170	$ 30,024

STATEMENT OF COMPREHENSIVE RESULTS OF OPERATIONS

Year ended December 31, 2007 ($ thousands)	2007	2006
Excess of revenue over expenses for the year	$ 2,170	$ 30,024
Net unrealized gains in the equity portfolio (Note 3c)		
Increase due to change in fair value during the year	1,751	–
Increase (decrease) for amounts included in investment income in the Statement of Operations	(8,425)	–
	(6,674)	–
Comprehensive Results of Operations for the Year	$ (4,504)	$ 30,024

STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2007 ($ thousands)	Appropriated		General		Total	
	2007	2006	**2007**	2006	**2007**	2006
Surplus, beginning of year, as originally reported	**$ 44,000**	$ 40,000	**$ 60,667**	$ 34,643	**$ 104,667**	$ 74,643
Effect on surplus on adoption of financial instruments accounting standards (Note 3c)	**–**	–	**5,262**	–	**5,262**	–
Surplus, beginning of year, as restated	**$ 44,000**	$ 40,000	**$ 65,929**	$ 34,643	**$ 109,929**	$ 74,643
Change in appropriation (Note 4)	**3,000**	4,000	**(3,000)**	(4,000)	**–**	–
Excess of revenue over expenses for the year	**–**	–	**2,170**	30,024	**2,170**	30,024
Surplus, end of year	**$ 47,000**	$ 44,000	**$ 65,099**	$ 60,667	**$ 112,099**	$ 104,667
Accumulated net unrealized gains, beginning of year due to the adoption of the financial instruments accounting standards (Note 3c)					**$ 32,487**	$ –
Change in net unrealized gains in equity portfolio for the year					**(6,674)**	–
Accumulated net unrealized gains in the equity portfolio, end of year					**$ 25,813**	$ –
Total Equity, End of Year					**$ 137,912**	$ 104,667

STATEMENT OF CASH FLOWS

Year ended December 31, 2007 ($ thousands)	2007	2006
Net Inflows (Outflows) of Cash Related to the Following Activities		
Operating		
Excess of revenue over expenses for the year	**$ 2,170**	$ 30,024
Add (deduct) non-cash items		
Amortization of bond premiums and discounts	**–**	(165)
Unrealized and realized (gains) losses on held for trading assets	**1,436**	–
Net realized gains on sale of available for sale assets	**(8,654)**	–
Writedown on available for sale assets	**229**	–
Net gains on sale of investments	**–**	(24,385)
Depreciation and amortization	**2,745**	3,381
Other	**(68)**	373
	(2,142)	9,228
Changes in non-cash balances related to operations		
Increase in prepaid expenses and other assets	**(233)**	(70)
Increase in amounts recoverable from builders	**(3,912)**	(553)
Increase (decrease) in warranty liabilities	**6,418**	(8,589)
Increase (decrease) in funds held as security	**(571)**	2,026
Increase (decrease) in accounts payable and accrued liabilities	**2,355**	(374)
Increase in employee future benefits liabilities	**327**	796
Cash provided by operating activities	**2,242**	2,464
Investing		
Proceeds from sale and maturity of investments	**228,082**	270,952
Purchase of investments	**(227,340)**	(269,749)
Purchase of capital assets	**(3,703)**	(2,196)
Cash used in investing activities	**(2,961)**	(993)
Net Increase (Decrease) in Cash During the Year	**(719)**	1,471
Cash (Overdraft), Beginning of Year	**400**	(1,071)
Cash (Overdraft), End of Year	**$ (319)**	$ 400

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 ($ thousands)

NOTE 1 **CORPORATION OPERATIONS**

Tarion Warranty Corporation (the "Corporation") was designated in 1976 by the Government of Ontario to administer the *Ontario New Home Warranties Plan Act* (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment and builder registration fees and invests available funds for the purposes of settling warranty claims from homeowners, and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Warranty protection is outlined in the Act and includes providing a warranty to purchasers of new homes in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

As a non-profit organization, the Corporation is exempt from income taxes.

NOTE 2 **BASIS OF PRESENTATION**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, although not required, the Corporation adopts certain guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI") for property and casualty ("P&C") insurance companies in Canada. These guidelines are in accordance with GAAP.

The preparation of financial statements, in conformity with GAAP, requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual amounts could differ from those estimates. The most significant estimation processes are related to the determination of warranty liabilities.

NOTE 3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Corporation adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

A) ACCOUNTING CHANGES

Section 1506 – *Accounting Changes*, establishes criteria for changing accounting policies and describes how to apply changes in accounting policies, accounting estimates, and changes resulting from the correction of errors. This standard also requires the disclosure of new GAAP changes that have been issued but not yet effective and that therefore will be implemented by the Corporation when they become effective, as well as their anticipated impacts.

The adoption of this standard for 2007 affected the Corporation's note disclosures. There was no impact on the Corporation's results of operations or financial position.

The Corporation's evaluation of the future impact of recently issued accounting pronouncements is disclosed in Note 3 – *Future accounting changes.*

B) CAPITAL DISCLOSURES

Section 1535 – *Capital Disclosures* requires disclosure of the Corporation's objectives, policies and processes for managing capital, including quantitative data about what the Corporation regards as capital. The required disclosures are contained in Note 4.

C) FINANCIAL INSTRUMENTS AND COMPREHENSIVE RESULTS OF OPERATIONS

Section 3855 – *Recognition and Measurement*, Section 1530 – *Comprehensive Income*, Section 3251 – *Equity* and Section 3861 – *Financial Instruments – Disclosure and Presentation* (collectively, the "financial instruments accounting standards") require changes in the accounting and presentation for financial instruments and in the recognition of certain transition adjustments. As required by the implementation of these new standards, the prior period's financial statements have not been restated.

Section 3855 – *Recognition and Measurement* establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets must be classified in one of the following categories: held for trading ("HFT"), held to maturity ("HTM"), loans and receivables, or available for sale ("AFS"). All financial liabilities must be classified as either held for trading or other financial liabilities.

Effective January 1, 2007, the Corporation designated its financial instruments as follows:

- **Held for trading financial assets**
  Cash and the fixed income portfolio were designated as held for trading financial assets and are measured at fair value with gains and losses, including interest earned, in the Statement of Operations. Transaction costs are recognized in the Statement of Operations as incurred.

- **Available for sale financial assets**
  The equity portfolio was designated as available for sale financial assets and is measured at fair value with unrealized gains and losses recognized in the net unrealized gains (losses) on equity portfolio in the Statement of Comprehensive Results of Operations. Accumulated net unrealized gains (losses) in the equity portfolio ("AUGL") forms part of the Equity on the Balance Sheet. The cumulative changes in the fair value of available for sale securities are removed from the AUGL and recorded in the Statement of Operations when the underlying security is either sold or there is a decline in value that is considered to be other than temporary. Transaction costs are added to the fair value of the available for sale financial assets recognized at acquisition.

- **Held to maturity financial assets**
  No financial assets were designated as held to maturity.

- **Loans and receivables**
  Amounts recoverable from builders were designated as loans and receivables. These assets are measured at amortized cost using the effective interest method.

- **Other financial liabilities**
  Accounts payable and accrued liabilities, and funds held as security, are designated as other liabilities and are measured at amortized cost using the effective interest method.

The warranty liabilities are specifically excluded from the financial instruments accounting standards. However, due to the adoption of the financial instruments accounting standards, the discount rate used to present value the future claim costs is now based on the market yield on investments instead of the book yield.

The adoption of the financial instruments accounting standards resulted in the following transition adjustments as of January 1, 2007:

- a net increase to opening surplus of $5,262 as a result of the fixed income portfolio designated as held for trading being accounted for at fair value ($5,550) net of the impact of the revised discount rate on the warranty liabilities ($288); and
- recognition of $32,487 in AUGL related to the net unrealized gains on the available for sale equity portfolio being accounted for at fair value.

		Adjustments due to the adoption of the new standards			
	As at December 31, 2006	HFT	AFS	Discount rate change	As at January 1, 2007
Investments					
Fixed income portfolio including accrued interest	$ 217,372	$ 5,550	$ –	$ –	$ 222,922
Equity portfolio including accrued dividends	59,471	–	32,487	–	91,958
	$ 276,843	$ 5,550	$ 32,487	$ –	$ 314,880
Warranty liabilities	135,962		–	288	136,250
General surplus	60,667	5,550	–	(288)	65,929
Accumulated net unrealized gains in the equity portfolio	$ –	$ –	$ 32,487	$ –	$ 32,487

Section 1530 establishes standards for the reporting and disclosure of comprehensive results of operations. Comprehensive results of operations consists of the excess of revenue over expenses and changes in unrealized gains and losses on financial assets designated as available for sale. The Statement of Comprehensive Results of Operations has been included in the Corporation's financial statements.

Section 3251 establishes standards for the presentation of equity and changes in equity during the period, including AUGL. The Statement of Changes in Equity has been included in the Corporation's financial statements.

Section 3861 establishes standards for the presentation of financial instruments and identifies the information that should be disclosed about them. The effect of the adoption of this standard was limited to the Corporation's disclosures with no impact on the Corporation's results of operations or financial position.

REVENUE RECOGNITION

Home enrolment fees are remitted by builders during the year. These fees, net of refunds, are deferred and taken into revenue as earned, as determined by actuarial calculations, over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. If claims experience indicates that home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due.

Dividend income is recognized as of the ex-dividend date. Interest income is recognized as earned. Net realized gains or losses on investments are recognized on a trade date basis. Unrealized gains or losses based on the fair value in effect at the balance sheet date on held for trading financial assets are recognized in investment income. Unrealized gains or losses on available for sale financial assets are recognized in net unrealized gains (losses) in the equity portfolio until they are realized. Available for sale financial assets are assessed regularly to determine whether any asset has an other than temporary impairment. Writedowns to reflect other than temporary impairment are recognized in investment income with any accumulated net unrealized losses removed from accumulated net unrealized gains (losses) in the equity portfolio.

WARRANTY LIABILITIES

The warranty liabilities include deferred home enrolment fees and warranty claim liabilities. Deferred home enrolment fees represent the unearned portion of home enrolment fees remitted by builders. Warranty claims liabilities are estimates of future warranty costs and include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the balance sheet date where it is anticipated that costs will be incurred by the Corporation.

The warranty period spans seven years and accordingly, significant periods of time can elapse between the incurrence of claims liabilities and their payment. Accordingly, the estimation of the liabilities involves significant measurement uncertainty.

The liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. Due to the adoption of the financial instruments accounting standards, the discount rate used has been changed from the book yield on investments to market yield. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the timing of settlements may differ from expected timing.

Claims incurred include claims recoveries and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include amounts recovered from builders on claims incurred during the current year or in previous years and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the balance sheet as an asset of the Corporation.

CAPITAL ASSETS

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided at the following rates and bases:

Software and applications	– straight-line over three years
Computer equipment	– straight-line over four years
Computer equipment acquired under capital lease	– straight-line over four years or the term of lease if shorter than four years
Furniture and office equipment	– 20% declining balance
Leasehold improvements	– straight-line over the term of the lease

EMPLOYEE FUTURE BENEFITS

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimates of expected plan investment performance, salary escalation,

retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service periods of eligible employees active at the date of amendment.

FUTURE ACCOUNTING CHANGES

Financial Instruments Disclosures

On January 1, 2008, the Corporation will adopt Section 3862 – *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*, replacing Section 3861 of the CICA Handbook. Section 3862 requires disclosure of information related to the significance of financial instruments to the Corporation's financial position and performance. The Corporation is also required to disclose information related to the risks arising from its use of financial instruments and how those risks are managed. Section 3863 carries forward unchanged the presentation requirements of Section 3861 with respect to financial instruments. The impact of these standards is limited to the presentation of the financial statements and notes; there will be no impact to the Corporation's financial position or its results of operations.

International Financial Reporting Standards

The CICA has indicated they plan to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Corporation's financial statements is not yet determinable.

NOTE 4 **EQUITY**

The Corporation has adopted a capital management framework modeled after the framework used in the P&C insurance industry and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 8.

In applying the framework, the Corporation has determined that $47,000 (2006 – $44,000) is required to be designated as appropriated surplus, defined as the minimum capital test the federal insurance regulator uses for P&C insurance companies plus an estimate of the amount needed to cover two years of adverse business results. Based on the capital management framework, the surplus of the Corporation as at December 31, 2007 has been determined to be sufficient to cover possible losses from a future catastrophic event as determined by the annual dynamic capital adequacy testing performed during the year.

NOTE 5 **INVESTMENTS**

a) Fair value of investments:

The Corporation has designated the fixed income portfolio as held for trading financial assets and the equity portfolio as available for sale financial assets as a result of the adoption of the financial instruments accounting standards (Note 3c). Both classes of assets are reported at fair value on the balance sheet.

The following table discloses details of the fair value of the Corporation's investment portfolio as at December 31:

	2007	2006	
	Fair Value	Carrying Value	Fair Value
Held for trading assets[1]			
Bonds issued by federal, provincial and municipal governments	**$ 106,798**	$ 113,930	$ 117,258
Financial institution bonds	**29,804**	38,566	40,082
Other corporate bonds	**78,315**	55,933	56,623
Treasury bills/Debit notes	**13,163**	8,943	8,959
	228,080	217,372	222,922
Available for sale assets[2]			
Equity portfolio	**86,441**	59,471	91,958
	$ 314,521	$ 276,843	$ 314,880

(1) Prior to January 1, 2007, these assets were classified as Investments and were carried at amortized cost. The prior period comparative amounts have not been restated.

(2) Prior to January 1, 2007, these assets were classified as Investments and were carried at cost, less any writedowns to recognize the loss in value that is considered to be other than temporary. The prior period comparative amounts have not been restated.

The fair value for both held for trading and available for sale assets are based on quoted bid prices and include accrued interest and dividends, respectively. The fair value of bonds and equities denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect as December 31.

b) Investment income:

	2007	2006
Interest and dividends[1]	**$ –**	$ 11,757
Net gains on sale of investments[1]	**–**	24,385
Change in fair value on held for trading assets	**8,026**	–
Net realized gains on sale of available for sale assets	**8,654**	–
Writedown on available for sale assets	**(229)**	–
Dividends from available for sale assets	**2,463**	–
Interest expense – other financial liabilities	**(1,338)**	–
	$ 17,576	$ 36,142

(1) Interest, dividends and net gains on sale of investments, are now presented according to the classification of the type of financial assets with the adoption of the financial instruments accounting standards effective January 1, 2007.

c) Impairment review of available for sale assets:

Management reviews available for sale assets at each quarter end to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary.

In determining whether a loss is temporary, management considers factors including the extent of the unrealized losses, the length of time that the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuer, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered other than temporary, a writedown is recorded in the Statement of Operations.

As of December 31, 2007, the available for sale equity portfolio had $2,700 of unrealized losses recorded in the Accumulated net unrealized gains in the equity portfolio (2006 – $329). The unrealized losses resulted from a decline in the U.S./Canadian dollar foreign exchange rate and declines in the fair value of the certain investments that management deemed as temporary declines pending further information becoming available.

d) Securities with interest rate exposure

As at December 31, the scheduled maturities and fair values of the fixed income portfolio are as follows:

	Terms to Maturity[1]					
	Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years	Total
2007						
Government						
Federal	$ 3,468	$ 22,156	$ 20,107	$ 2,913	$ 11,577	$ 60,221
Yield to Maturity ("YTM")	3.9%	3.8%	4.0%	4.1%	4.1%	4.0%
Provincial		2,597	22,846	11,262	7,343	44,048
YTM		4.2%	4.4%	4.5%	4.6%	4.4%
Municipal		1,046	265	539		1,850
YTM		4.3%	4.9%	4.7%		4.5%
Total Government	3,468	25,799	43,218	14,714	18,920	106,119
YTM	3.9%	3.9%	4.2%	4.5%	4.3%	4.2%
Financial Institutions		2,858	19,281	2,785	4,508	29,432
YTM		4.8%	5.0%	5.2%	5.4%	5.1%
Other Corporate		31,856	39,387	3,075	3,124	77,442
YTM		4.8%	5.0%	5.1%	5.9%	4.9%
T-Bills / Debit Notes	13,114					13,114
YTM	3.9%					3.9%
Total Fixed Income	16,582	60,513	101,886	20,574	26,552	226,107
Accrued Interest	1,973					1,973
Total Fixed Income with Accrued Interest	**$ 18,555**	**$ 60,513**	**$ 101,886**	**$ 20,574**	**$ 26,552**	**$ 228,080**
YTM	**3.9%**	**4.4%**	**4.7%**	**4.7%**	**4.7%**	**4.5%**
2006						
Total Fixed Income	$ 12,216	$ 52,596	$ 92,048	$ 38,470	$ 25,596	$ 220,926
Accrued Interest	1,996					1,996
Total Fixed Income with Accrued Interest	**$ 14,212**	**$ 52,596**	**$ 92,048**	**$ 38,470**	**$ 25,596**	**$ 222,922**
YTM	**4.3%**	**4.2%**	**4.4%**	**4.3%**	**4.5%**	**4.3%**

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

NOTE 6 **FINANCIAL INSTRUMENTS**

a) Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and investments are measured at fair value. The carrying value of amounts recoverable from builders, funds held as security, accounts payable and accrued liabilities, and warranty liabilities approximates fair value.

b) Market risk

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below. To minimize these three risks, the Corporation diversifies its portfolio.

- **Interest rate risk**
  Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio. Details of the Corporation's securities with interest rate exposure are disclosed in Note 5(d).

- **Equity price risk**
  Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

- **Foreign currency risk**
  Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The Corporation is exposed to currency risk on its foreign currency denominated fixed-income and equity investments. As at December 31, 2007, the Corporation had approximately 6.4% (2006 – 7.7%) of the fair value of its equity investments and approximately 0.8% (2006 – 0.5%) of the fair value of its securities with interest rate exposure denominated in U.S. dollars. The Corporation manages its foreign currency exposure by limiting the foreign content in each investment manager's portfolio. It also regularly monitors this risk by reviewing the amount of U.S. dollar denominated investments.

c) Credit risk

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash, investments and amounts recoverable from builders. The carrying value of financial assets, including cash, investments and amounts recoverable from builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policy limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit.
- The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of "A" for debt securities at the time an investment is purchased.
- Cash and short-term investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.

NOTE 7 **CAPITAL ASSETS**

	2007			2006
	Cost	Accumulated Depreciation/ Amortization	Net Book Value	Net Book Value
Software and applications	$ 8,720	$ 6,420	$ 2,300	$ 2,134
Computer and office equipment under capital lease	4,030	2,348	1,682	1,048
Leasehold improvements	2,686	749	1,937	1,801
Computer equipment	1,287	939	348	479
Furniture and office equipment	1,466	639	827	674
	$ 18,189	$ 11,095	$ 7,094	$ 6,136

The balance of the capital lease obligations arising from the acquisition of certain computer and office equipment was $1,739 at December 31, 2007 (2006 – $1,084). This obligation is reported on the Balance Sheet in accounts payable and accrued liabilities. Interest expense of $190 was incurred during 2007 (2006 – $166) on the capital leases which is reported in general and administrative expenses in the Statement of Operations.

NOTE 8 **WARRANTY LIABILITIES**

The determination of the Corporation's warranty liabilities, which include deferred home enrolment fees and warranty claim liabilities, is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgment of its management, on historical precedents and trends, on prevailing legal, economic, social and regulatory environments and on expectations of future development. Periodic studies are performed by management and reviewed by external actuarial consultants to assess the adequacy of the warranty claims liabilities recorded for homes and condominiums, as well as the adequacy of deferred home enrolment fees to cover future claims and related administration costs to administer claims.

In general, the longer time period between the incidence of loss and settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs.

The following table summarizes the components of the warranty liabilities as at December 31.

	2007	2006
Deferred home enrolment fees, beginning of year	**$ 88,115**	$ 88,592
Fees received	**36,591**	32,560
Fees earned	**(33,240)**	(33,037)
Deferred home enrolment fees, end of year	**91,466**	88,115
Warranty claims liabilities, beginning of year, as originally reported	**47,847**	55,959
Increase due to adoption of the financial instruments accounting standards (note 3c)	**288**	–
Warranty claims liabilities, beginning of the year, as restated	**48,135**	55,959
Provisions for claims, net of reversals	**16,269**	3,820
Claims paid	**(13,202)**	(11,932)
Warranty claims liabilities, end of year	**51,202**	47,847
Warranty liabilities, end of year	**$ 142,668**	$ 135,962

The following table summarizes the components of claims incurred presented in the Statement of Operations:

	2007	2006
Provisions for claims, net of reversals	**$ 16,269**	$ 3,820
Less recoveries	**(9,322)**	(4,637)
Net claims incurred (recovered) for the year	**$ 6,947**	$ (817)

NOTE 9 **FUNDS HELD AS SECURITY**

The Corporation receives security deposits in the form of cash, letters of credit and other guarantees, from certain builders and/or on certain projects in order to reduce the risk of financial loss related to future warranty claims from homeowners. Security deposits are paid back to the builder and the letters of credit or other guarantees are released when certain of the Corporation's requirements are met.

Security deposits received in cash are invested as part of the Corporation's investment portfolio. The Funds held as security presented on the Balance Sheet as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon of $2,211 (2006 – $1,685). Letters of credit and other guarantees are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims. Such amounts are included in amounts recoverable from builders in the Balance Sheet.

During the year, the Corporation incurred interest of $1,338 (2006 – $1,173) on cash security deposits.

NOTE 10 EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan is comprised of a defined benefit pension plan which is closed to further contributions, and a money purchase pension plan. The money purchase pension plan ("MPP") is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the MPP, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily under various health and dental coverages, on an unfunded basis. Effective January 1, 2007, new retirements from active service will now receive lifetime health and dental benefits. This resulted in a past service cost which is being amortized on a straight-line basis over the average remaining service period to full eligibility at the date of the amendment.

The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2005. To estimate the obligation at December 31, 2007, results were extrapolated from the January 1, 2005 valuation. The next valuation of the accrued pension benefit obligation will be performed as at January 1, 2008.

As at December 31, 2007, the fair value of the pension fund assets is $13,176 (2006 – $12,323), which is slightly below the actuarial present value of accrued pension benefits for the Pension Plan estimated to be $13,286 (2006 – $12,658). The accrued pension liability is $556 (2006 – $761).

The accrued benefit liability for OPEB at December 31, 2007 is $1,107 (2006 – $575).

Key information is as follows:

Actuarial assumptions for pension expense estimates	
Return on assets	6.75%, net of expenses (2006 – 6.75%)
General inflation	3.0% (2006 – 3.0%)
Liability discount rate	5.0% (2006 – 5.0%)
Salary increases	4.0% (2006 – 4.0%)
Mortality	Uninsured Pensioners Mortality Table – 1994
Actuarial assumptions for OPEB expenses estimates	
Discount rate	5.0% (2006 – 5.0%)
General inflation	3.0% (2006 – 3.0%)
Dental care trend rate	4.0% (2006 – 4.0%)
Extended health care trend rate	10.0% (2006 – 10.0%); decreasing by 1.0% annually, commencing in 2008, to an ultimate rate of 5.0%
Mortality	Uninsured Pensioners Mortality Table – 1994
Pension plan asset mix	
Canadian equity securities	19.0% (2006 – 23.0%)
International and U.S. equity securities	36.0% (2006 – 37.0%)
Bonds	28.0% (2006 – 25.0%)
Cash	17.0% (2006 – 15.0%)

Other information about the Corporation's Pension Plan and OPEB is as follows:

	2007		2006	
	Pension Plan	**OPEB**	Pension Plan	OPEB
Reconciliation and funded status				
Fair value of plan assets	**$ 13,176**	**$ –**	$ 12,323	$ –
Accrued benefit obligation	**13,286**	**2,669**	12,658	1,234
Funded status of plan – surplus (deficit)	**(110)**	**(2,669)**	(335)	(1,234)
Unamortized transitional (asset)/obligation	**(883)**	**119**	(1,009)	137
Unamortized net actuarial loss	**229**	**210**	358	522
Unamortized past service cost	**208**	**1,233**	225	–
Accrued liability, net of valuation allowance	**$ (556)**	**$ (1,107)**	$ (761)	$ (575)
Transfers to other plans and benefits paid	**$ 584**	**$ 17**	$ 1,337	$ 18
Employee contributions	**577**	**–**	508	–
Employer contributions	**952**	**17**	58	18
Expense for the year	**747**	**549**	678	194

The total cash paid or payable in 2007 was $969 (2006 – $76).

NOTE 11 CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is party to a number of lawsuits, the outcome of which is not determinable at this time. However, in the opinion of management, these lawsuits should not result in material losses to the Corporation.

The Corporation has future minimum annual lease payments as follows:

	Premises Leases	Computer and Office Equipment Leases	Total Leases
2008	$ 734	$ 694	$ 1,428
2009	734	590	1,324
2010	739	394	1,134
2011	721	61	782
2012	717	–	717
2013 and thereafter	2,727	–	2,727
	$ 6,371	$ 1,739	$ 8,110

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. No amounts have been accrued related to these agreements.

NOTE 12 **COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform to the presentation adopted in 2007.

CORPORATE INFORMATION

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Questions or comments regarding Tarion Warranty Corporation or any information appearing in the Annual Report may be directed to:

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The Corporation's Annual Report can also be found on the Tarion website at **www.tarion.com.**

TARION

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